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July 7, 1983

JUNE 1983 MONTHLY REPORT

Surveys of Consumer Attitudes

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OPTIMISM REIGNS

** In the June 1983 survey, the Index of Consumer Sentiment was 92.2, just below the 93.3 recorded in May, and substantially above the 70.4 recorded in January 1983, and the 65.7 recorded in June 1982. The small and insignificant decline was concentrated among lower income families. Among families with incomes of $25,000 or more, the Index rose to 102.5 in June 1983 from 101.0 in May, and 78.8 in January 1983.

** More families in the June 1983 survey reported hearing news of favorable developments in the economy than in any prior survey. Reports of increases in employment dominated the favorable developments. Among all families, 64 percent reported that overall business conditions had improved during the past year, a new record level.

** As a result of the federal tax cut, a somewhat smaller proportion of families expected increased take-home pay in 1983 (22 percent) than in 1982 (28 percent). The median expected additional take-home pay was $25 per month in 1983, unchanged from the 1982 figure. Although overall spending intentions did not significantly change during the past year, spending plans have shifted towards major new purchases and away from meeting current needs and expenses.

** More families than ever before rated buying conditions for houses favorably in the June 1983 survey (66 percent). Favorable attitudes towards buying conditions for cars were held by 63 percent of all families, just below the all-time record of 66 percent recorded in April and May 1983. In each case, lower interest rates and lower prices led to these favorable attitudes.

** For the first time in more than a year, a higher proportion of respondents in the June 1983 survey expected increases rather than declines in interest rates (29 versus 27 percent). Just three months earlier, in March 1983, more than twice as many families expected declines rather than increases in interest rates (41 versus 19 percent). Given the heightened dependence of buying attitudes on interest rates, actual increases in interest rates are likely to cause serious and immediate reversals in favorable buying attitudes.

* * *

Consumers remained very optimistic in the June 1983 survey about the outlook for their own financial sitution as well as for the economy in general. Following the rapid rise of more than 20 Index-points since January, the one month decline of just 1 Index-point does not represent a change in the underlying upward momentum. Even if the Index did not rise much above its current level, consumer spending in late 1983 and early 1984 can be expected current level, consumer spending in late 1983 and early 1984 can be expected to benefit from the very favorable attitudes already recorded.

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Record Awareness of Improved Business Conditions

Favorable developments in economic conditions continue to dominate the news heard and recalled by consumers in the June 1983 survey. The June 1983 survey marked the fourth consecutive month which set a new record level of favorable perceptions of recent economic developments. More than twice as many favorable as unfavorable developments were reported in June 1983 (83 versus 31 percent), nearly the reverse of the negative balance recorded one year earlier (24 versus 87 percent). The improvement recorded since the start of 1983 has been due to favorable changes in employment/unemployment trends. Among all families, 31 percent mentioned instances where employment had increased, up from 28 percent in May and just 12 percent in January. In contrast, references to increases in unemployment fell to 21 percent in June 1983 from 43 percent at the start of the year. Among all families in the June 1983 survey, 64 percent reported that overall business conditions had improved during the past year, a new record level, up from just 16 percent in January.

Consumers remain very optimistic about the outlook for the economy during the year ahead. Among all families in the June 1983 survey, 49 percent expected business conditions to improve, down from the all-time peak of 55 percent recorded in May, but well above the 37 percent recorded one year earlier. Only 7 percent expected business conditions to worsen in the next year, just above the 6 percent recorded in May, and well below the 26 percent recorded a year earlier. The expected decline in unemployment has been the dominant factor associated with the improvement during the past year. Unemployment was expected to decline by 37 percent of all respondents in the June 1983 survey, down from 42 percent in May, but more than twice the 16 percent recorded one year earlier. The proportion of respondents that expected increases in unemployment was 15 percent in June 1983, up from 13 in May, but less than a third of the 48 percent recorded in June 1982.

Personal Finances Improve

For the third consecutive month, families in the June 1983 survey more frequently reported that their personal financial situation had improved rather than worsened during the past year (38 versus 28 percent). This represents the most favorable balance of opinion in more than five years. The

recent improvement has been due to more frequent reports of income increases, which rose to 32 percent in June 1983, up from 29 percent in May and 27 percent in June 1982. Although reports of income declines fell to 19 percent in June from a high of 26 percent three months earlier, it remains above the 18 percent recorded in June 1982.

Consumers remained very optimistic about the outlook for their personal financial situation during the year ahead: four times as many families expected improvement rather than a worsening financial situation. Compared with a year earlier, in the June 1983 survey fewer families expected their incomes to decline (17 to 13 percent), and more frequently expected their family incomes to remain unchanged during the year ahead (21 to 28 percent).

1983 Tax Cut

In the June 1983 survey, respondents were asked whether they expected their monthly take-home income to change as a result of the tax legislation, repeating questions asked in earlier surveys (see Table A). Fewer respondents reported that they expected their incomes to increase in the June 1983 survey (22 percent) than in 1982 (28 percent) or in 1981 (46 percent). Among those families that expected increases in their take-home pay, the median monthly expected increase was $25 in June 1983, unchanged from the 1982 figure, and just half the amount expected in 1981.

When asked whether they plan to save or spend the increase in after-tax income, families more frequently reported spending plans in June 1983 (46 percent), than in 1982 (43 percent) or 1981 (25 percent). In contrast to 1982 when almost the entire increase in spending plans was related to meeting current needs and expenses, the increase in spending plans recorded in 1983 was concentrated in plans to make major new purchases such as household durables, vehicles, and home additions and repairs. Nonetheless, two-thirds of all spending plans remain relegated to meeting current needs and expenses. Compared with a year earlier, respondents somewhat more frequently expect to save the additional after-tax income (28, up from 25 percent), while somewhat fewer respondents reported that they expected to use the added income to repay debt (19, down from 23 percent).

Favorable Buying Attitudes

In the June 1983 survey, two-thirds of all American families rated buying conditions for houses favorably, the highest proportion ever recorded. The pace as well as the extent of improvement recorded during the past year has set new records. The proportion of families giving favorable evaluations of buying conditions for houses rose from the all-time low of 15 percent in July 1982 to the all-time high of 66 percent in June 1983. The major reasons given by consumers for this abrupt turnaround in house buying attitudes have been lower mortgage rates and lower housing prices. During the past year, complaints of high mortgage rates fell from 75 to 23 percent, while references to the availability of lower mortgage rates rose from 7 to 61 percent. Mentions of the availability of lower housing prices rose to 20 percent in June 1983 from 15 percent one year earlier, while references to high housing prices fell to 13 from 27 percent.

The last cyclical peak in favorable attitudes toward buying conditions for houses was recorded in May 1977, when 63 percent of all families rated house buying conditions favorably. At that time, the major reason given for favorable house buying attitudes involved buy-in-advance price rationales, reported by 47 percent of all families in the May 1977 survey. In sharp contrast, in the June 1983 survey, just 8 percent of all families mentioned buy-in-advance price rationales. In 1977, more families referred to high rather than low housing prices, while at the 1983 peak, low rather than high prices were more frequently mentioned. As shown in the table below, just as favorable house buying attitudes in 1977 were dominated by buy-in-advance price rationales, favorable house buying attitudes in 1983 were dominated by the appeal of lower mortgage rates.

The proportion of American families holding favorable attitudes towards buying conditions for cars was 63 percent in June 1983, just below the all-time record of 66 percent recorded in both April and May 1983. The primary reason for favorable car buying attitudes has been the availability of lower interest rates, mentioned by 40 percent of all respondents for the third consecutive month, while complaints of high interest rates fell to just 6 percent in the June 1983 survey. Compared with a year earlier, mentions of lower prices and rebates fell from 32 to 23 percent, but references to high car prices fell by a greater amount, from 33 to 20 percent, providing a small

	Houses		Cars	
	May 1977	June 1983	March 1978	June 1983
Proportion Holding Favorable Attitudes	63%	66%	55%	63%
Selected Reasons:				
Low prices	4	20	12	23
High prices	22	13	20	20
Low interest	12	61	2	40
High interest	10	23	2	6
Buy-in-advance	47	8	34	11

net positive impact. Following the extensive rise during recent months in favorable attitudes toward market conditions for cars, the June 1983 survey recorded a significant increase in the formation of specific car purchase intentions. Among all families, 22 percent said they intended to purchase a car during the upcoming year in the June 1983 survey, the highest level recorded since February 1977. The expected timing of these intended purchases is concentrated in the fourth quarter of 1983.

Interest Rate
Expectations Edge Upward

For the first time in more than a year, the June 1983 survey recorded a higher proportion of respondents that expected increases rather than declines in interest rates. Declines in interest rates during the year ahead were expected by 27 percent of all families in June 1983, down from 31 percent one month earlier, and 41 percent three months earlier. Increases in interest rates were expected by 29 percent in June 1983, up from 20 percent in May. Despite these recent declines, interest rate expectations remain at relatively favorable levels.

The heightened dependence of buying attitudes on interest rates will continue to shape subsequent developments in buying attitudes. Further declines in interest rates will continue to support favorable buying attitudes, while increases in interest rates are likely to cause serious and

immediate reversals in favorable buying attitudes. Even if interest rates were to stabilize at current levels, their favorable impact on buying attitudes would gradually recede over time as people became accustomed to the prevailing rates.

TABLE A

EXPECTED CHANGE IN MONTHLY TAKE-HOME PAY
IF PERSONAL INCOME TAX REDUCTIONS ARE ADOPTED

Expect Take-home Pay to...	1981	1982	1983
Increase	46%	28%	22%
Stay the same	40	55	57
Decrease	2	5	6
Does not pay taxes	6	7	11
Don't know	2	2	3
Not ascertained	4	3	1
Total	100%	100%	100%
Cases	1224	2770	714
Expect Increase in Monthly Take-home Pay			
Median	$50	$24	$25
Planned Use of Increase in Take-home Pay			
Spend	25%	43%	46%
New purchases	8	8	15
Current expenses	17	35	31
Repay debt	21	23	19
Save, invest	41	25	28
Both spend and save	4	4	6
Don't know, not ascertained	9	5	1
Total	100%	100%	100%
Amount of Difference that Added Income Makes			
Considerable difference	NA	5%	9%
Small difference		39	44
Practically none		49	42
Don't know, not ascertained		7	5
Total		100%	100%

The questions were: April-May 1981: "If the personal income tax reductions were actually passed, would you expect your monthly take-home pay to increase, stay the same, or what?" IF INCREASE: "About how much more money would you expect to take home each month?" "What do you think you would do with this money--spend it, save it, invest it, repay debts, use it for a down-payment on something, or what?"

July-October 1982, June 1983: "As a result of the [YEAR] federal tax cut, would you expect your monthly take-home pay to increase, stay the same, or what?" IF INCREASE: "About how much money would you expect to take home each month?" "What do you think you would do with this money--spend it, save it, invest it, repay debts, use it for a down-payment on something, or what?" "Does the amount of extra income you get from the tax cut make a considerable difference to you, or only a small difference, or practically none?"

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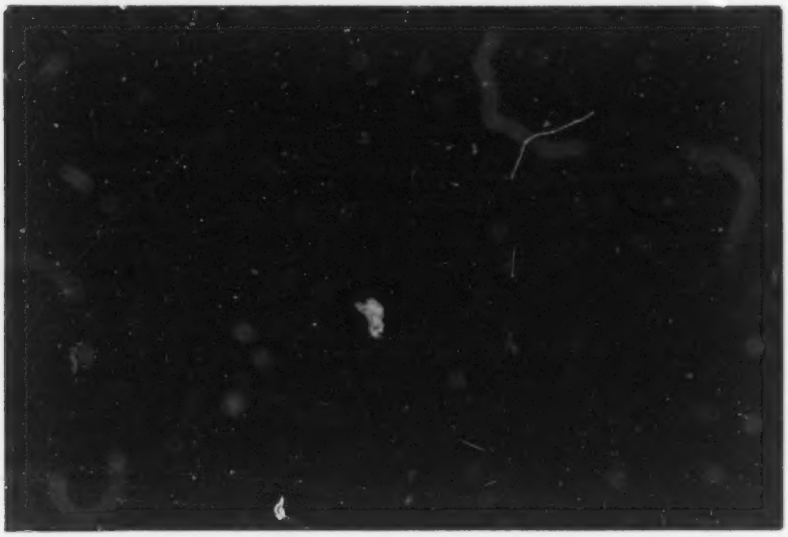
SURVEYS OF CONSUMER ATTITUDES



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TABLES AND CHARTS

JUNE 1983

The June 1983 survey is the 177th in a series of surveys of consumer attitudes conducted by the Survey Research Center at The University of Michigan. Initiated in 1946, these periodic surveys provide regular assessments of consumer attitudes and expectations, and are used to evaluate economic trends and prospects. The surveys are designed to explore why changes in consumer attitudes and expectations occur, and how these changes influence consumer spending and saving decisions.

Two charts highlight recent changes and historical patterns for most questions. Recent change charts include quarterly data before 1978 and monthly data starting in January of 1978. Historical series charts show quarterly data before 1978 and 3 month moving averages since then. See the explanatory charts at the end of this book for a detailed description.

All surveys are subject to sampling error because not all members of the population are interviewed. Most results on the total sample for this monthly survey will differ by no more than 4 percentage points in either direction from what would have been obtained by using the same methods on the entire population. See the back of this book for sampling error information.

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CHART 1 - RECENT CHANGES
THE INDEX OF CONSUMER SENTIMENT

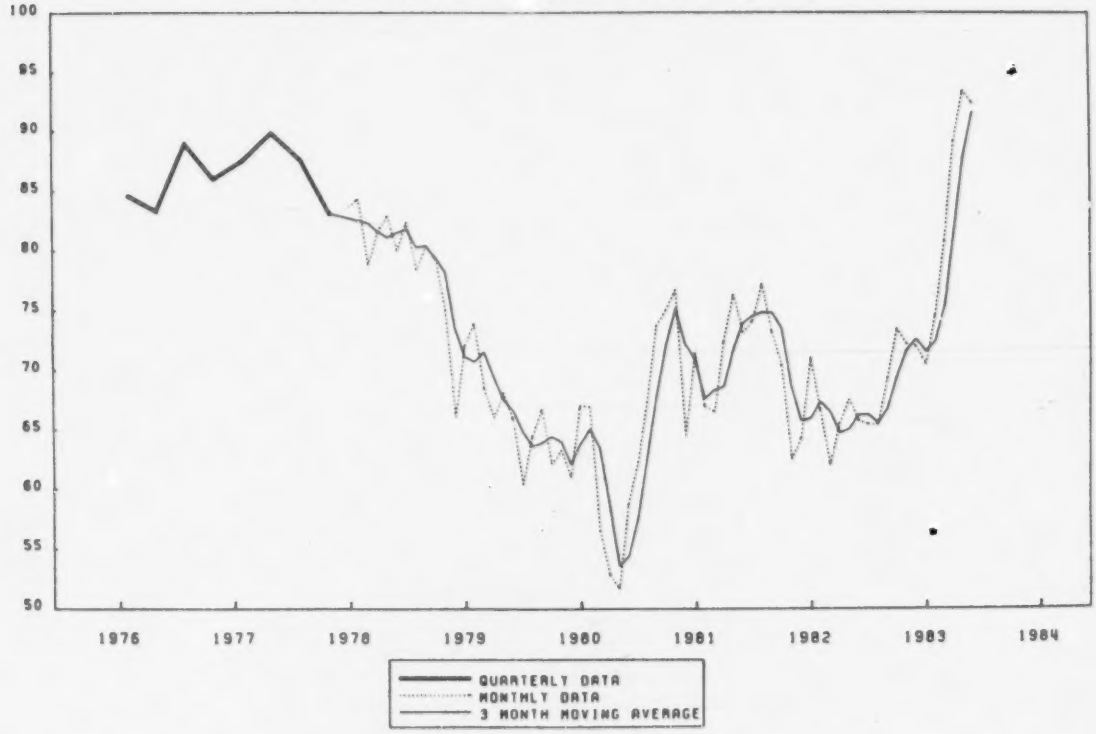

CHART 1 - HISTORICAL SERIES
THE INDEX OF CONSUMER SENTIMENT

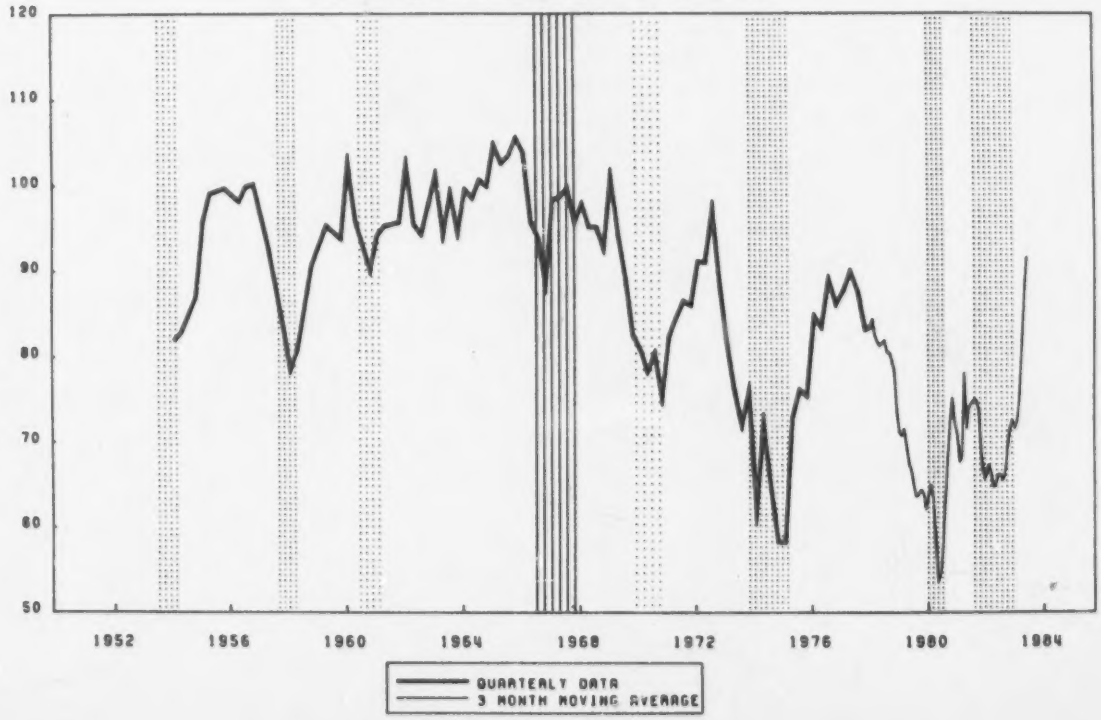

TABLE 1

THE INDEX OF CONSUMER SENTIMENT

DATE OF SURVEY	All families	Families with incomes over $20,000	Families with incomes over $25,000
June 1980	58.7	61.6	63.7
July 1980	62.3	67.6	67.3
August 1980	67.3	70.9	74.2
September 1980	73.7	78.1	78.5
October 1980	75.0	76.3	78.7
November 1980	76.7	82.7	87.5
December 1980	64.5	66.9	68.6
January 1981	71.4	74.8	77.1
February 1981	66.9	74.2	77.5
March 1981	66.5	72.1	73.7
April 1981	72.4	77.1	78.0
May 1981	76.3	80.8	85.0
June 1981	73.1	81.2	82.9
July 1981	74.1	80.8	82.1
August 1981	77.2	82.7	85.0
September 1981	73.1	75.2	73.3
October 1981	70.3	74.5	77.9
November 1981	62.5	67.2	66.3
December 1981	64.3	71.0	71.1
January 1982	71.0	77.9	77.8
February 1982	66.5	71.5	72.8
March 1982	62.0	67.0	67.9
April 1982	65.5	71.5	73.2
May 1982	67.5	72.7	74.8
June 1982	65.7	71.4	72.9
July 1982	65.4	68.9	69.2
August 1982	65.4	71.0	73.6
September 1982	69.3	78.4	81.1
October 1982	73.4	77.5	80.9
November 1982	72.1	79.3	81.1
December 1982	71.9	78.0	80.5
January 1983	70.4	78.2	78.8
February 1983	74.6	79.9	81.3
March 1983	80.8	88.4	88.9
April 1983	89.1	97.1	99.0
May 1983	93.3	99.6	101.0
June 1983	92.2	101.2	102.5

CHART 2A - HISTORICAL SERIES

INDEX OF CONSUMER SENTIMENT WITHIN REGION SUBGROUPS

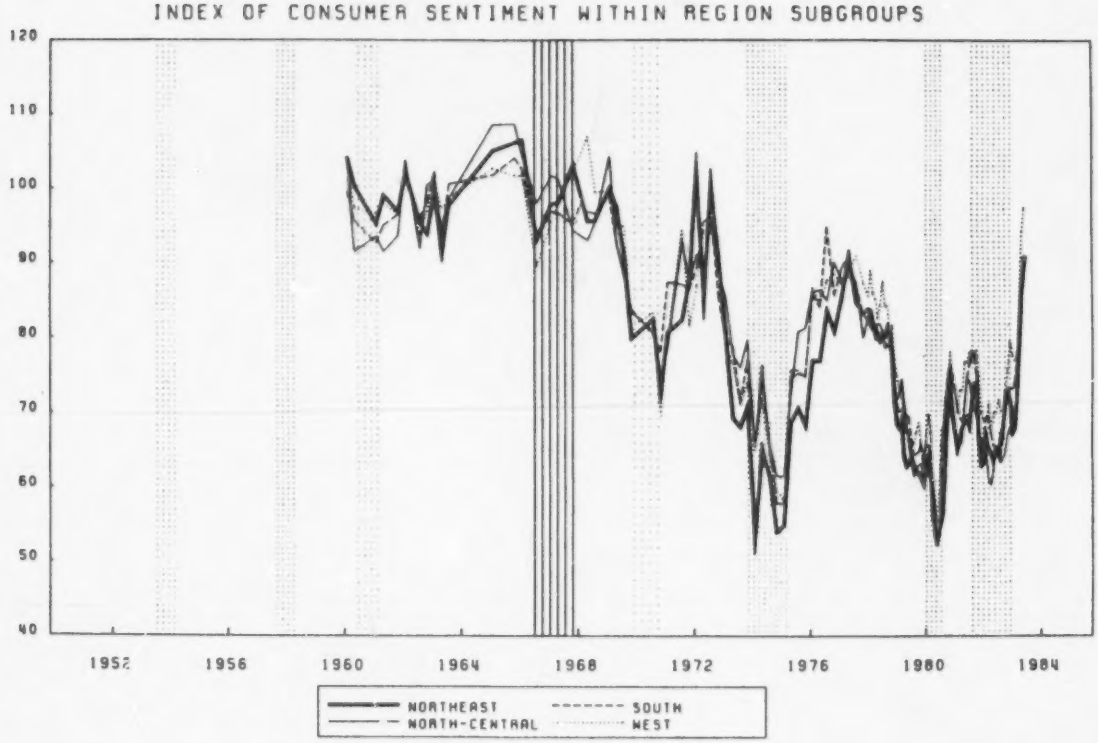

CHART 2B - HISTORICAL SERIES

INDEX OF CONSUMER SENTIMENT WITHIN AGE SUBGROUPS

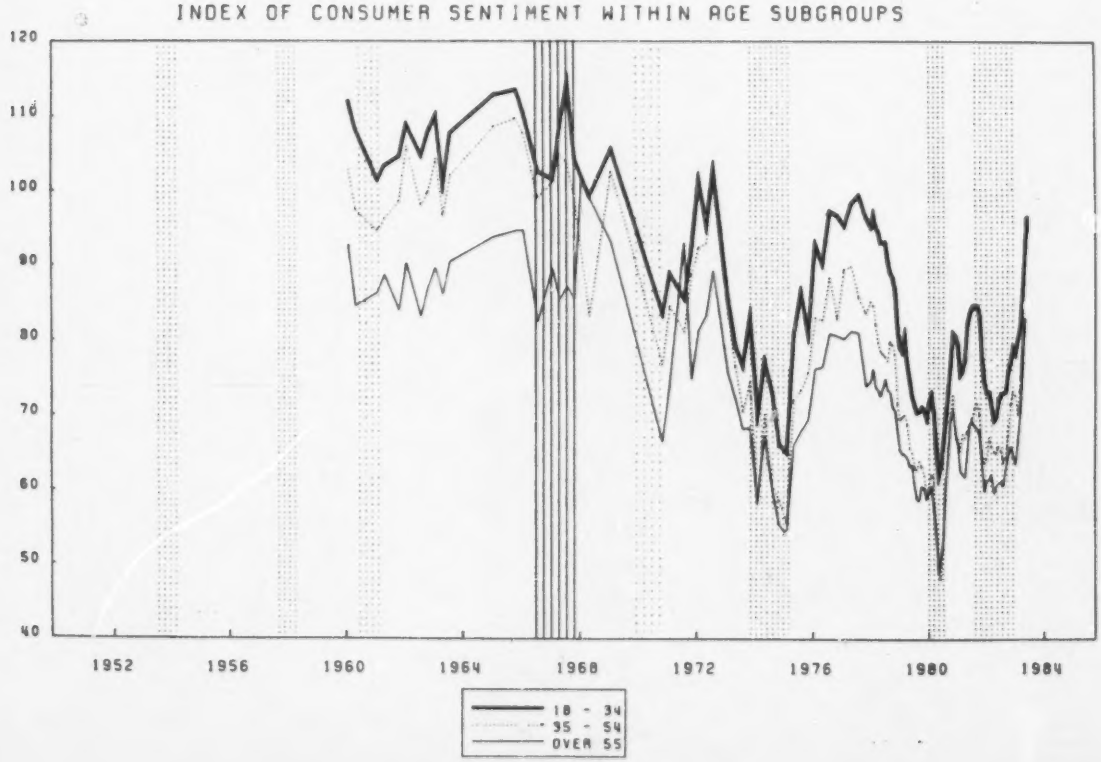

TABLE 2

INDEX OF CONSUMER SENTIMENT WITHIN REGION AND AGE SUBGROUPS

DATE OF SURVEY		CENSUS REGION				AGE OF RESPONDENT		
		North East	North Central	South	West	18-34	35-54	55+
June	1980	54.4	58.0	56.4	67.3	65.9	53.5	58.1
July	1980	55.9	58.5	66.4	68.6	69.9	58.1	58.8
August	1980	59.0	66.2	72.6	68.1	72.0	64.8	66.0
September	1980	76.3	68.3	71.8	79.5	78.6	73.4	69.4
October	1980	75.7	70.2	79.1	73.1	80.2	70.2	74.0
November	1980	71.1	76.2	77.3	81.9	85.3	73.5	70.3
December	1980	62.3	59.9	69.3	64.6	76.0	56.7	60.1
January	1981	68.2	70.9	72.5	74.4	77.2	70.2	67.9
February	1981	64.5	62.6	70.2	70.8	72.5	68.4	59.6
March	1981	66.5	62.6	64.9	73.7	77.3	63.9	58.4
April	1981	72.6	72.7	71.0	74.2	81.5	68.3	66.9
May	1981	66.8	76.6	77.5	82.2	87.7	71.2	70.0
June	1981	68.5	74.0	75.2	73.8	81.7	67.0	69.6
July	1981	68.9	72.2	76.5	78.1	84.2	70.6	67.6
August	1981	77.0	70.1	83.2	79.2	87.8	75.0	67.9
September	1981	75.1	69.9	72.4	76.6	81.4	68.8	69.2
October	1981	67.9	68.2	68.9	79.0	80.7	65.9	64.8
November	1981	55.8	64.7	61.1	68.8	71.3	59.6	57.7
December	1981	65.0	65.3	64.4	61.6	70.9	65.3	56.7
January	1982	68.8	67.3	72.0	76.2	76.6	67.4	68.5
February	1982	65.9	60.6	71.8	68.8	71.5	68.3	59.0
March	1982	60.5	55.8	64.7	68.2	65.5	61.4	58.8
April	1982	67.2	64.6	65.0	65.8	70.6	65.5	60.4
May	1982	62.4	66.5	66.6	75.7	72.7	67.6	62.0
June	1982	65.4	65.0	64.9	68.6	72.4	64.4	60.3
July	1982	65.1	64.0	63.5	71.1	73.4	63.3	60.6
August	1982	68.1	60.6	64.0	70.6	72.6	62.9	60.2
September	1982	70.3	67.2	71.1	68.8	73.0	66.7	68.0
October	1982	77.8	66.2	74.1	79.3	81.2	72.1	65.5
November	1982	70.6	67.9	73.2	79.3	76.6	75.7	63.8
December	1982	66.1	70.0	72.5	80.4	78.9	71.7	64.2
January	1983	64.9	70.5	73.6	72.8	78.8	70.0	62.0
February	1983	72.1	72.3	75.8	77.2	82.1	68.3	72.4
March	1983	82.9	73.7	82.7	84.4	84.9	81.5	75.5
April	1983	89.1	88.0	87.2	95.6	95.8	90.5	80.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
June	1983	95.1	88.7	92.5	94.1	97.8	94.4	83.9

CHART 3 - RECENT CHANGES
CURRENT AND EXPECTED COMPONENTS

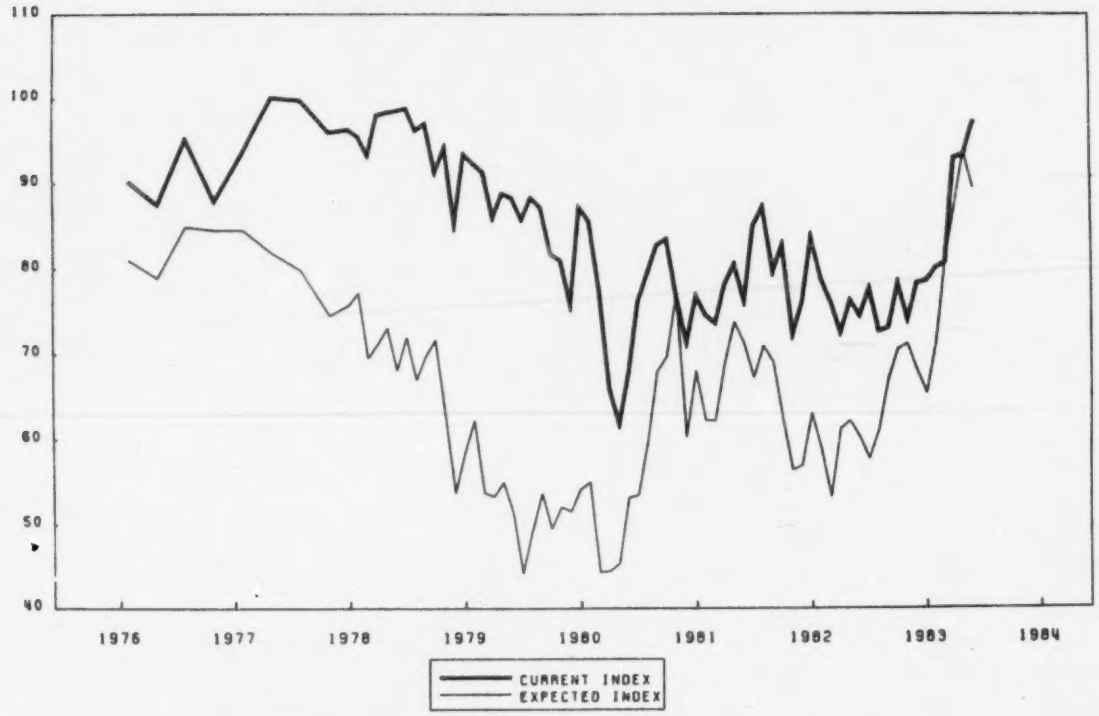

CHART 3 - HISTORICAL SERIES
CURRENT AND EXPECTED COMPONENTS

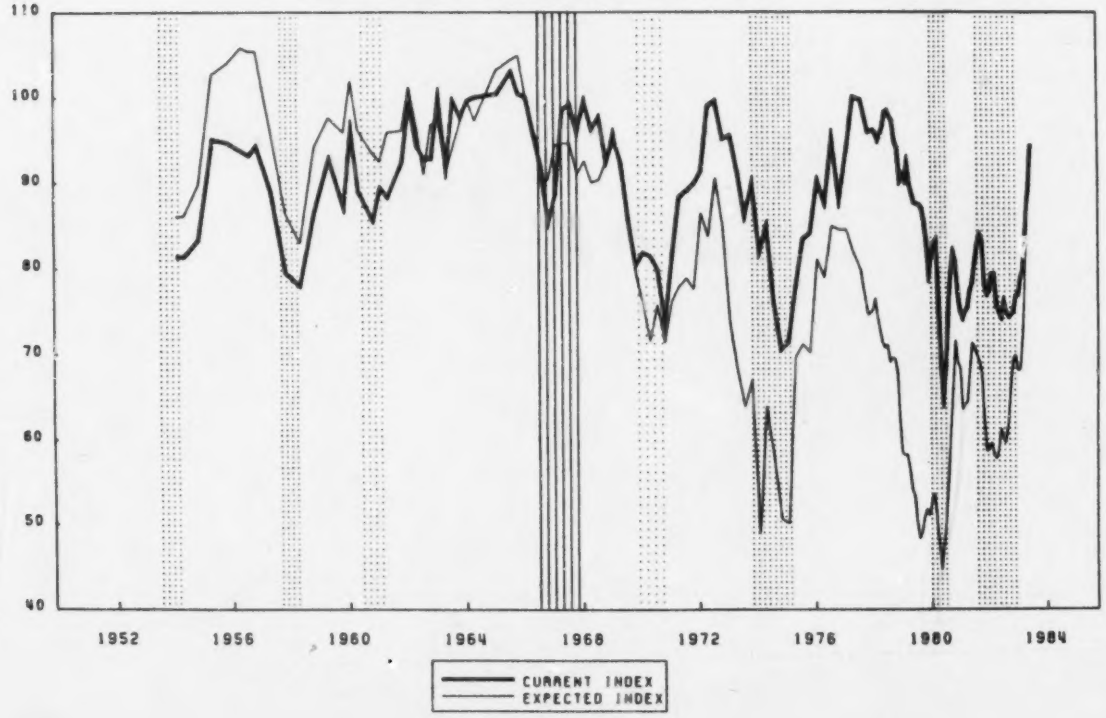

TABLE 3

COMPONENTS OF THE INDEX OF CONSUMER SENTIMENT

DATE OF SURVEY	INDEX COMPONENTS +						
	Personal finances		Business conditions				
	Current	Expected	12 months	5 years	Buying conds.	Current Index	Expected Index
	(1)	(2)	(3)	(4)	(5)	(1,5)	(2,3,4)
June 1980	78	101	43	63	93	67.4	53.0
July 1980	90	105	45	58	104	76.1	53.4
August 1980	93	111	63	60	109	79.4	59.6
September 1980	91	117	83	69	121	82.7	67.9
October 1980	90	108	84	83	123	83.4	69.6
November 1980	83	118	94	93	112	76.4	76.9
December 1980	77	100	64	73	104	71.2	60.2
January 1981	80	109	78	81	116	76.7	67.9
February 1981	80	106	64	73	109	74.4	62.1
March 1981	86	104	68	72	101	73.5	62.1
April 1981	79	111	83	78	121	78.1	68.8
May 1981	95	118	92	81	111	80.4	73.6
June 1981	89	113	91	78	104	76.1	71.2
July 1981	99	114	81	70	118	84.9	67.1
August 1981	100	117	92	72	123	87.1	70.8
September 1981	94	113	80	80	109	79.5	69.0
October 1981	95	110	68	67	117	82.7	62.3
November 1981	85	110	54	56	99	72.1	56.3
December 1981	94	110	54	61	101	75.9	56.8
January 1982	92	115	66	70	124	83.5	62.9
February 1982	91	112	56	65	111	78.6	58.7
March 1982	89	106	44	60	106	75.9	53.1
April 1982	87	111	62	70	99	72.3	61.1
May 1982	94	113	62	72	102	76.1	62.0
June 1982	92	116	58	65	99	74.3	60.1
July 1982	90	113	53	63	110	77.5	57.6
August 1982	89	110	64	69	97	72.5	60.9
September 1982	89	116	76	74	98	72.9	66.9
October 1982	95	119	79	83	106	78.1	70.4
November 1982	85	121	77	86	105	73.8	71.0
December 1982	90	117	74	80	111	78.1	67.9
January 1983	91	115	76	69	111	78.4	65.2
February 1983	89	117	87	81	117	79.9	71.2
March 1983	92	126	113	85	115	80.5	80.9
April 1983	108	131	120	99	131	92.7	86.9
May 1983	101	137	139	100	139	93.1	93.4
June 1983	110	128	134	97	141	96.9	89.2

(1) See Table 4.
(2) See Table 6.
(3) See Table 18.
(4) See Table 19.
(5) See Table 26.

+ : Percent saying "GOOD TIMES" (or "BETTER"), minus percent saying "BAD TIMES" (or "WORSE"), plus 100.

CHART 4 - RECENT CHANGES

CURRENT FINANCIAL SITUATION COMPARED WITH A YEAR AGO

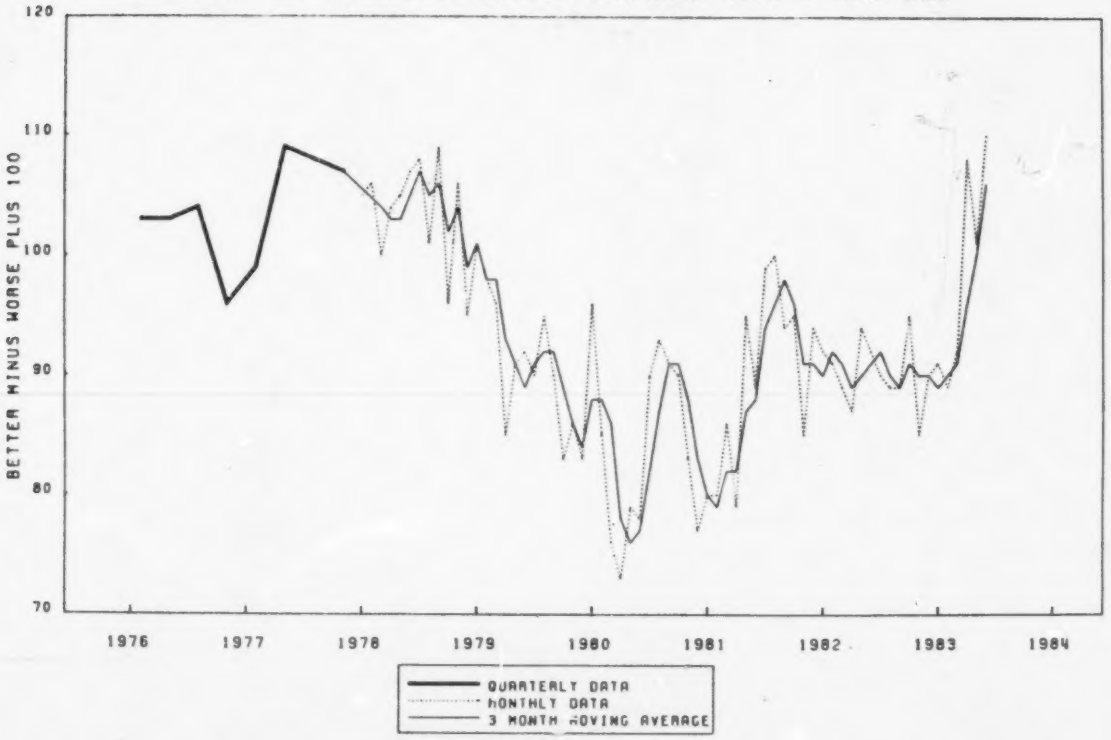

CHART 4 - HISTORICAL SERIES

CURRENT FINANCIAL SITUATION COMPARED WITH A YEAR AGO

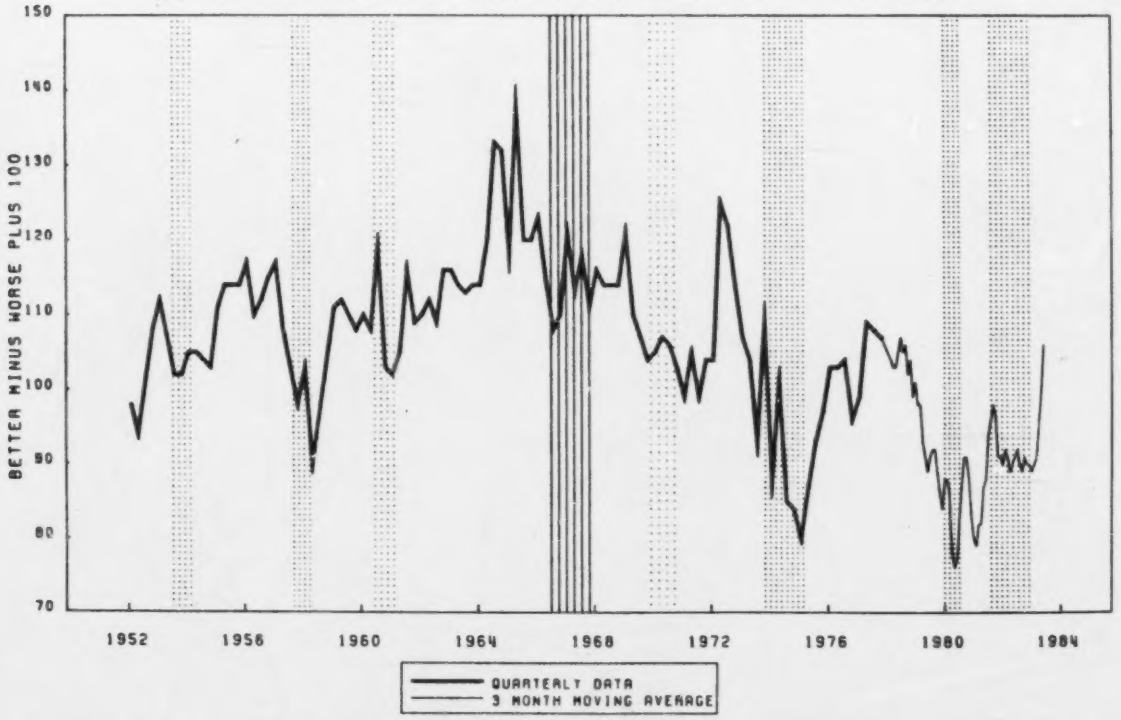

TABLE 4

CURRENT FINANCIAL SITUATION COMPARED TO A YEAR AGO

	June 1982	July 1982	Aug. 1982	Sept 1982	Oct. 1982	Nov. 1982	Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	Apr. 1983	May 1983	June 1983
BETTER OFF	30%	31%	29%	31%	34%	31%	28%	29%	30%	31%	39%	34%	36%
SAME	32	28	30	27	27	23	34	33	29	30	30	33	33
WORSE OFF	38	41	40	42	39	46	38	38	41	39	31	33	28
DK,NA	*	*	1	*	*	*	*	*	*	*	*	*	1
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
CASES	703	708	680	695	687	682	682	682	709	696	707	700	714

The question was: "We are interested in how people are getting along financially these days. Would you say that you (and your family living there) are better off or worse off financially than you were a year ago?"

* : Less than half of one percent.